MISSOURI'S 529 EDUCATION PLAN

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FROM: Bruce A. Ring, Jr.
Director of Investments

David B. Saucier
Assistant Director of Investments

RE: 2022 Annual Program Review

Section 166.450 of the Revised Statutes of Missouri requires the Director of Investments of the State Treasurer's office to annually review the Missouri MOST 529 Education Program ("MOST") and report those findings to the MOST Board ("Board"). The director must review five areas:

- Board administration
- Financial status
- Investment policy
- Participation rate
- Continued viability

Accordingly, I am pleased to report the following from my review for calendar year 2022.

I. Board Administration

Ascensus Government Savings Recordkeeping Services, LLC serves as MOST's program manager, record-keeper, distributor and servicing agent. Together with its affiliates, Ascensus Government Savings has overall responsibility for the day-to-day operations of the plan. Ascensus Government Savings assumed responsibility as recordkeeping and servicing agent, for both the Direct and Advisor Plans on June 3, 2006. On February 7, 2011, the Board entered into another contract with Ascensus Government Savings extending through June of 2016. Another RFP for program management services was issued in 2015. On February 8, 2016, a new contract was entered into with Ascensus Government Savings extending the contract service period to June of 2021, under the terms of the 2016 contract the Advisor Plan was eliminated and the participants were migrated into the Direct Plan. In addition, the Board met quarterly during 2022, as required by law.

In June of 2020, the Board entered into a new contract with Ascensus Government Savings extending the contract service period to June of 2026.

II. Financial Status

Following is a review of the financial status of our major partners and a summary of the investment performance of the investment options within the MOST plan.

A. Financial Status of MOST Partners

Ascensus Government Savings is part of Ascensus, Inc., the largest independent retirement and college savings services provider in the United States, helping over twelve million Americans save for the future. With more than 40 years of experience, the firm partners with financial institutions to offer tailored solutions that meet the needs of financial professionals, employers, and individuals. Ascensus specializes in recordkeeping, administrative, and program management services, supporting over 157,200 retirement plans and 6.5 million 529 college savings accounts. It also administers more than 1.6 million IRAs and 444,900 health savings accounts.

The investment manager for the Direct Plan, The Vanguard Group, Inc., remains a strong franchise. Vanguard is one of the world's largest investment companies, offering about 430 low-cost traditional funds and ETFs. As of June 30, 2022, more than 50 million+ investors have entrusted Vanguard with more than $8 trillion in global assets under management. Vanguard continues to be a leader in the 529 plan industry, evidenced by over $157 billion in 529 savings and pre-paid tuition plan assets under management. Headquartered in Malvern, Pennsylvania, Vanguard has about 20,000 employees spread across 18 locations worldwide.

B. Performance of MOST Underlying Funds

Overall, 2022 saw negative performance from both the equity and fixed income underlying funds – with the exception of the short-term reserve which notched a slight gain. The equity funds performance ranged from -19.49% to -5.78%, while the fixed income results were from -13.15% to +1.68%. The results show worse performance in the equity and fixed income underlying funds compared to the prior year. Generally speaking, it was a rough year from an investment perspective.

In 2022, the returns on the plan's portfolios ranged from a -19.59% to 1.5%. One portfolio had a positive return while the other 20 were negative.

Treasurer Malek's office is responsible for monitoring the relative performance of each of the underlying investment alternatives versus an established benchmark. This effectively measures the contribution that the investment manager's expertise has on participants' returns. During calendar year 2022, absolute returns were predominantly negative while two-thirds of the portfolios also saw negative relative returns. All of the underlying portfolios performed as expected or slightly below benchmark. While index funds are expected to be at or slightly below benchmark, depending on the extent to which they stray from exact matching of the index, actively-managed funds are expected to exceed those benchmarks.

III. Investment Policy

In mid-2007, the Board adopted a formal investment policy governing program investment. The policy establishes objectives for structuring the investment options; formulates policies for selecting appropriate investment managers and the use of specific investment vehicles; and establishes an investment-performance process for underlying funds in the Plan. The policy is

an important statement by the Board in terms of defining its fiduciary responsibilities and standards for Treasurer Malek's office staff and MOST partners.

Since its adoption, the policy has been amended twice. In 2008, the Board modified the policy to allow the Director of Investments, rather than the Board, to place a fund on, or release it from, the "WATCH" status.

In August 2011, the Board made several modifications to the policy. The Board lengthened a fund's formal review period—specifically, up three consecutive quarters from two—when looking at benchmark performance evaluation for the Watch List. When determining a fund's Watch List eligibility and quarterly performance, the Board also added "Beta" and "Alpha" measures to a review process. Finally, the Board eliminated the "value of active management" measurement criteria. In June 2016, a new Investment Policy was adopted by the Board when the Advisor Plan participants were merged into the Direct Plan and the Advisor Plan was eliminated.

In September 2019, a new version of the investment policy was adopted by the Fitzpatrick Administration, after review, with no substantive changes.

A review of the Policy has taken place in 2022 as required, there were no substantive changes made, only changes to marketing responsibilities for the program.

IV. Participation Rate

The following is an examination of the participation rate of the MOST programs. By examining the participation rate for the program, we can attempt to gauge the relative success the program has had in reaching the state's residents and encouraging them to increase 529 savings—the original goal of the IRS section authorizing these programs. The relative success or failure of states' various 529 programs rests on many different factors including the effectiveness of marketing efforts, availability of a state tax deduction, demographic and economic conditions, cost structure and the abilities, and resources of states' partners to attract and retain assets. However, one facet that has remained a constant is the competition for assets among states' program managers, which remains fierce.

A. Growth of Plan in calendar year 2022

The stock market was down significantly in 2022. Here are the overall market results for the year:

- The DOW was down by 8.78%
- The S&P 500 was down 19.44%
- Nasdaq was down 33.10%

The MOST Plan was impacted by this negative market action. Assets under management decreased in 2022 by 14.68% ending the year at $3,583,423,145.68.

However, despite the bad market, the number of accounts in the Plan continued to grow in 2022. We experienced a net increase in accounts in the plan of 1.7%, closing at 188,599 accounts. The vast majority of accounts are Missouri residents which account for almost 90% of account ownership.

Thankfully, MOST plan participants did continue contributing to their accounts in a meaningful way. Total contributions for the year were only down 5.38% compared to 2021, and came in at

$387M. We are pleased to see that Missourians continued to invest in the Plan, despite the uncertain market conditions.

Total withdrawals for 2022 were at $395M, down $11M from last year.

B. Comparison of MOST Participation to National Trends

The tough market conditions in 2022 have caused assets in all 529 Plans to decrease significantly. The strong contribution activity for the plan last year was not enough to turn this around. The Missouri's MOST Plan's 2022 results were consistent with its peers.

The MOST Plan continued to show organic growth despite the challenges in the marketplace. The plans added 12,998 new beneficiary accounts in 2022 (compared to 16,478 in in 2021). This represents a 21.12% decrease from last year. According to ISS Market Insight (Strategic Insight), in 2022 the average direct sold 529 plan added 23.6% fewer accounts in 2022 than 2021.

V. Continued Viability

The MOST 529 Plan remains a viable 529 savings program. In Ascensus Government Savings' 17½-years of program management, we have experienced strong trends in asset and account growth despite the market turmoil we have experienced. We have also seen continued organic growth in the number of new beneficiaries enrolled in the plan, which shows growth of new customers.

Additionally, the current contact with Vanguard has built-in fee reductions which will make the plan more cost efficient for the participant.

In recent years, the federal 529 legislation has expanded the qualified uses of a 529 to also include:

- K-12 expenses (public, private, and religious)
- Repayment of student loans (lifetime limit of $10K per individual)
- Registered apprenticeship
- In 2024, we will also offer the ability to rollover assets into a ROTH IRA

We expect that this additional flexibility to use 529 assets will help to alleviate any concerns about what to do if the beneficiary doesn't go to college. We expect this to encourage Missourians to open MOST accounts!

Overall, Missouri's MOST 529 Plan remains not only viable, but well positioned for growth as one of the premiere plans in the country.